

**SUSPEND THE RULES AND PASS THE BILL, H.R. 21, WITH AN  
AMENDMENT**

**(The amendment strikes out all after the enacting clause and inserts  
a new text)**

106<sup>TH</sup> CONGRESS  
2<sup>D</sup> SESSION

# H. R. 21

To establish a Federal program to provide reinsurance for State disaster  
insurance programs.

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## IN THE HOUSE OF REPRESENTATIVES

JANUARY 6, 1999

Mr. LAZIO (for himself, Mr. MCCOLLUM, Mr. BENTSEN, Mr. LaFALCE, Mr. BAKER, Mr. WEYGAND, Mr. SHERMAN, Mr. LEACH, Mrs. ROUKEMA, Mr. CAMPBELL, Mr. METCALF, Mrs. KELLY, Mr. WELDON of Florida, Mr. ACKERMAN, Mr. MALONEY of Connecticut, Ms. HOOLEY of Oregon, Mr. COOKSEY, Mr. DREIER, Mr. YOUNG of Alaska, Mr. FROST, Mr. FARR of California, Mr. MCCRERY, Mrs. MEEK of Florida, Ms. CHRISTIAN-GREEN, Mr. CANADY of Florida, Mr. CALVERT, Mr. SHAW, Mr. CUNNINGHAM, Mr. EWING, Mr. DAVIS of Florida, Mr. PRICE of North Carolina, Mr. McKEON, Mr. BILIRAKIS, Mr. BOYD, Mrs. FOWLER, Mr. LOBIONDO, Mr. BLUNT, Mr. LAHOOD, Mrs. THURMAN, Mr. WEXLER, Ms. ROS-LEHTINEN, Mr. KNOLLENBERG, Mr. MICA, Mr. DEUTSCH, Mr. STEARNS, Mr. TRAFICANT, and Mr. PORTER) introduced the following bill; which was referred to the Committee on Banking and Financial Services

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## A BILL

To establish a Federal program to provide reinsurance for  
State disaster insurance programs.



1       gage defaults and the strain on the Nation's banking  
2       system;

3           (3) limited Federal reinsurance will improve the  
4       effectiveness of private insurance markets and State  
5       insurance programs and will increase the likelihood  
6       that homeowners' insurance claims will be fully paid  
7       in the event of a large natural catastrophe;

8           (4) it is necessary to provide, on a temporary  
9       basis, a Federal reinsurance program that will pro-  
10      mote stability in the homeowners' insurance market  
11      in the short term and encourage the growth of rein-  
12      surance capacity by the private and capital markets  
13      as soon as practicable;

14          (5) such a Federal reinsurance program should  
15      not remain in existence longer than necessary for  
16      the private entities or the capital markets, or both,  
17      to provide adequate reinsurance capacity to address  
18      the current homeowners' insurance market disloca-  
19      tions caused by various disasters; and

20          (6) any Federal reinsurance program must be  
21      founded upon sound actuarial principles and priced  
22      in a manner that minimizes the potential impact on  
23      the Treasury.

1 **SEC. 3. PROGRAM AUTHORITY.**

2 (a) IN GENERAL.—The Secretary of the Treasury  
3 shall, as expeditiously as possible, establish a program  
4 under this Act to provide reinsurance coverage through  
5 contracts for reinsurance coverage under section 6 that  
6 are made available only through auctions under section  
7 6(a).

8 (b) PURPOSE.—The program shall be designed to  
9 make reinsurance coverage under this Act available to im-  
10 prove the availability of homeowners' insurance for the  
11 purpose of facilitating the pooling, and spreading the risk,  
12 of catastrophic financial losses from natural disasters and  
13 to improve the solvency of homeowners' insurance mar-  
14 kets.

15 (c) CONTRACT PRINCIPLES.—Contracts for reinsur-  
16 ance coverage made available pursuant to the program  
17 under this Act—

18 (1) shall not displace or compete with the pri-  
19 vate insurance or reinsurance markets or capital  
20 markets;

21 (2) shall minimize the administrative costs of  
22 the Federal Government; and

23 (3) shall provide coverage based solely on in-  
24 sured losses within the region (established pursuant  
25 to section 6(a)) for which the auction, at which the  
26 contract is made available for purchase, is held.

1 **SEC. 4. QUALIFIED LINES OF COVERAGE.**

2 Each contract for reinsurance coverage made avail-  
3 able under this Act shall provide insurance coverage  
4 against residential property losses to homes (including  
5 dwellings owned under condominium and cooperative own-  
6 ership arrangements) and the contents of apartment  
7 buildings.

8 **SEC. 5. COVERED PERILS.**

9 Each contract for reinsurance coverage made avail-  
10 able under this Act shall cover losses that are proximately  
11 caused by—

- 12 (1) earthquakes;
- 13 (2) perils ensuing from earthquakes, including  
14 fire and tsunamis;
- 15 (3) tropical cyclones having maximum sustained  
16 winds of at least 74 miles per hour, including hurri-  
17 canes and typhoons;
- 18 (4) tornadoes; or
- 19 (5) volcanic eruptions.

20 The Secretary shall, by regulation, define the natural dis-  
21 aster perils under this section.

22 **SEC. 6. AUCTION OF CONTRACTS FOR REINSURANCE COV-**  
23 **ERAGE.**

24 (a) **AUCTION PROGRAM REQUIREMENTS.**—The Sec-  
25 retary shall carry out a program to auction contracts for

1 reinsurance coverage under this Act, which shall comply  
2 with the following requirements:

3 (1) PURCHASERS.—The auction program shall  
4 provide for auctioning all contracts made available  
5 under this section to private insurers and reinsurers,  
6 State insurance and reinsurance programs, and  
7 other interested entities.

8 (2) REGIONAL AUCTIONS.—The auction pro-  
9 gram shall provide for auctions on a regional basis.  
10 The Secretary shall divide the States into not less  
11 than 6 regions for the purpose of holding such re-  
12 gional auctions, which shall include separate regions  
13 for all or part of the State of California and all or  
14 part of the State of Florida. In determining the  
15 boundaries for such regions, the Secretary shall con-  
16 sider which areas have greater risks of losses from  
17 covered perils and which areas have lesser risks of  
18 losses from covered perils, and shall attempt not to  
19 combine those different types of areas. Auctions for  
20 each region shall be conducted not less often than  
21 annually.

22 (3) RESERVE PRICE.—In auctioning contracts  
23 for reinsurance coverage, the Secretary shall set, for  
24 each contract, a reserve price that is the minimum  
25 price at which the contract may be sold, based upon

1 the recommendations of the Commission. The re-  
2 serve price shall be determined on the basis of the  
3 following components:

4 (A) RISK-BASED PRICE.—A risk-based  
5 price, which shall reflect the anticipated  
6 annualized payout of the contract according to  
7 the actuarial analysis and recommendations of  
8 the Commission.

9 (B) RISK LOAD.—A risk load in an  
10 amount that is not less than the risk-based  
11 price under subparagraph (A).

12 (C) ADMINISTRATIVE COSTS.—A sum suf-  
13 ficient to provide for the operation of the Com-  
14 mission and the administrative expenses in-  
15 curred by the Secretary in carrying out this sec-  
16 tion.

17 (D) MITIGATION.—An adjustment based  
18 on an actuarial analysis that takes into account  
19 any efforts that are being made to reduce losses  
20 to property in the region in which the contract  
21 is being sold.

22 (4) PRICE GOUGING PROTECTIONS.—The auc-  
23 tion program may provide reinsurance coverage for  
24 losses incurred only for property located in a State  
25 for which the State entity authorized to make such

1       determinations has certified to the Secretary that  
2       there are in effect, in such State, laws or regulations  
3       sufficient to prohibit price gouging, during the term  
4       of such reinsurance coverage, in any disaster area  
5       located within the State.

6           (5) MITIGATION REQUIREMENTS.—

7           (A) IN GENERAL.—The auction program  
8       shall require each purchaser of a contract, as a  
9       condition of such purchase, to contribute an  
10      amount, that the Secretary (in consultation  
11      with the Director of the Federal Emergency  
12      Management Agency) shall establish and which  
13      shall not exceed 5 percent of the price paid for  
14      the contract, to communities that—

15           (i) are located in the State in which  
16       the reinsurance coverage under the con-  
17       tract is provided (or in the case of multiple  
18       States, among such States, as determined  
19       by the Secretary);

20           (ii) are designated by the Director of  
21       the Federal Emergency Management  
22       Agency and the appropriate emergency  
23       management agency for the State as  
24       Project Impact communities (for purposes



1 of the pre-disaster mitigation program of  
2 such Agency); and

3 (iii) are participating in such pro-  
4 grams or initiatives as the Director of the  
5 Federal Emergency Management Agency  
6 may require that provide incentives for  
7 construction of structures and communities  
8 that are resistant to damage from covered  
9 perils, which shall include the Building  
10 Code Effectiveness Grading Schedule of  
11 the Insurance Services Office.

12 (B) USE OF CONTRIBUTIONS.—Amounts  
13 contributed to communities pursuant to sub-  
14 paragraph (A) shall be used only—

15 (i) for activities to reduce losses from  
16 covered perils to properties covered under  
17 the reinsurance contract purchased under  
18 the auction program that are located in  
19 such communities; and

20 (ii) in accordance with such require-  
21 ments as the Secretary, in consultation  
22 with the Director of the Federal Emer-  
23 gency Management Agency and appro-  
24 priate State agencies, shall establish to en-  
25 sure cost-effective use of such amounts.

1           (C) ALLOCATION.—The Secretary, in con-  
2           sultation with the Director of the Federal  
3           Emergency Management Agency, shall establish  
4           requirements for allocation of contributions  
5           among communities eligible under subpara-  
6           graph (A) to receive such contributions.

7           (D) ESCROW.—The Secretary shall require  
8           any amounts required to be contributed to com-  
9           munities pursuant to subparagraph (A) to be  
10          paid to the Secretary upon purchase of a con-  
11          tract and shall deposit such amounts in an es-  
12          crow account established in the Treasury of the  
13          United States for such amounts. The Secretary  
14          shall issue regulations governing the establish-  
15          ment of such escrow accounts, the deposit of  
16          amounts in such escrow accounts, and the dis-  
17          tribution and use of such amounts in accord-  
18          ance with the requirements of this paragraph.

19          (6) OTHER REQUIREMENTS.—The Secretary  
20          may establish such other requirements for the auc-  
21          tion program as the Secretary considers necessary to  
22          carry out this Act.

23          (b) CONTRACT TERMS AND CONDITIONS.—Each con-  
24          tract for reinsurance coverage under this Act shall include  
25          the following terms and conditions:

1           (1) MATURITY.—The term of each such con-  
2           tract shall not exceed 1 year or such other term as  
3           the Secretary may determine.

4           (2) TRANSFERABILITY.—The contract shall at  
5           all times be fully transferable, assignable, and divis-  
6           ible.

7           (3) THRESHOLD OF COVERAGE.—The contract  
8           shall provide that the covered purchaser may receive  
9           a payment for losses covered under the contract only  
10          if, under a process specified in the contract, the Sec-  
11          retary determines that, as a result of a single event  
12          of a covered peril, the cumulative amount of insured  
13          losses within the coverage area for the region estab-  
14          lished under subsection (a)(2) for which the contract  
15          was auctioned that are covered by one or more lines  
16          of insurance under section 5, for such event, are  
17          greater than the level of retained losses specified in  
18          section 8.

19          (4) MULTIPLE EVENTS.—The contract shall  
20          cover any eligible losses from one or more covered  
21          events that may occur during the term of the con-  
22          tract and shall provide that if multiple events occur,  
23          the retained losses requirement under paragraph (3)  
24          shall apply to each event.

1           (5) ADDITIONAL CONTRACT OPTION.—The con-  
2       tract shall provide that the purchaser of the contract  
3       may, during the term of such original contract, pur-  
4       chase additional contracts from among those offered  
5       by the Secretary at the beginning of the term, sub-  
6       ject to the limitations under section 8, at the prices  
7       at which such contracts were offered at the begin-  
8       ning of the term, prorated based upon the remaining  
9       term as determined by the Secretary. Such addi-  
10      tional contracts shall provide coverage beginning on  
11      a date 15 days after the date of purchase but shall  
12      not provide coverage for losses for an event that has  
13      already occurred.

14           (6) SUBMISSION OF INFORMATION.—The con-  
15      tract shall include terms that—

16           (A) require the purchaser to notify the  
17           Secretary of any sale, transfer, assignment, or  
18           division of the contract or any interest in the  
19           contract, identify the interest involved, and  
20           identify the price paid or compensation pro-  
21           vided; and

22           (B) authorize the disclosures required  
23           under subsection (c)(2).

24           (7) OTHERS.—The contract shall contain such  
25      other terms as the Secretary considers necessary to

1 carry out this Act and to ensure the long-term fi-  
2 nancial integrity of the program under this Act.

3 (c) GAO AUDIT.—

4 (1) IN GENERAL.—For each fiscal year, the  
5 Comptroller General of the United States shall con-  
6 duct an audit of prices for contracts made available  
7 under the auction program under this section during  
8 such fiscal year that determines—

9 (A) the reserve prices established for such  
10 contracts;

11 (B) the prices paid for such contracts that  
12 are purchased;

13 (C) the prices paid, or compensation pro-  
14 vided, in any sales, transfers, assignments, or  
15 divisions of any such contracts (or any interests  
16 in such contracts) in the secondary market or  
17 to any third party; and

18 (D) pursuant to the information obtained  
19 under subparagraphs (A) through (C), the ap-  
20 propriate reserve prices for such contracts that  
21 are to be made available in the succeeding fiscal  
22 year.

23 (2) USE OF INFORMATION.—The Secretary  
24 shall provide any information referred to in sub-  
25 section (b)(6) that is obtained by the Secretary to

1 the Comptroller General, the Director of the Con-  
2 gressional Budget Office, and the Director of the Of-  
3 fice of Management and Budget, and shall make  
4 such information publicly available. The Secretary,  
5 the Director of the Congressional Budget Office, the  
6 Director of the Office of Management and Budget  
7 shall each take such information into consideration  
8 in preparing any budget, report, estimate, or rec-  
9 ommendation to the extent it relates to the auction  
10 program under this section, and in any determina-  
11 tions relating to the Budget of the United States or  
12 the concurrent resolution on the budget (as such  
13 term is defined in section 3 of the Congressional  
14 Budget Act of 1974). The Secretary shall take such  
15 information into consideration in establishing reserve  
16 prices for contracts made available under this sec-  
17 tion.

18 **SEC. 7. ANTI-REDLINING REQUIREMENT.**

19 Notwithstanding section 6(a), the Secretary may not  
20 make a contract for reinsurance coverage under this Act  
21 available for purchase unless the purchaser certifies to the  
22 Secretary that—

23 (1)(A) in the case of a contract purchased by  
24 an insurer or reinsurer, the insurer or reinsurer (or  
25 affiliate of such insurer or reinsurer) has not been

1 adjudicated in any Federal court, and has not en-  
2 tered, after the date of the enactment of this Act,  
3 into a consent decree filed in a Federal court or into  
4 a settlement agreement, premised upon a violation of  
5 the Fair Housing Act for the activities involved in  
6 making insurance coverage available; or

7 (B) in the case of a contract purchased by a  
8 State program, no insurer (or affiliate of such in-  
9 surer) participating in the State program has been  
10 adjudicated in any Federal court, or has entered,  
11 after the date of the enactment of this Act, into a  
12 consent decree filed in a Federal court or into a set-  
13 tlement agreement, premised upon a violation of the  
14 Fair Housing Act for the activities involved in mak-  
15 ing insurance coverage available; and

16 (2) if such an insurer or reinsurer (or affiliate  
17 of such an insurer or reinsurer) has entered into any  
18 such consent decree or settlement agreement, the in-  
19 surer or reinsurer (or affiliate) is not in violation of  
20 the decree or settlement agreement as determined by  
21 a court of competent jurisdiction or the agency with  
22 which the decree or agreement was entered into.

1 **SEC. 8. MINIMUM LEVEL OF RETAINED LOSSES AND MAX-**  
2 **IMUM FEDERAL LIABILITY.**

3 (a) AVAILABLE LEVELS OF RETAINED LOSSES.—In  
4 making reinsurance coverage available under this Act, the  
5 Secretary shall make available for purchase contracts for  
6 such coverage that require the sustainment of retained  
7 losses from a single event of a covered peril (as required  
8 under section 6(b)(3) for payment of eligible losses) in var-  
9 ious amounts, as the Secretary, in consultation with the  
10 Commission, determines appropriate and subject to the re-  
11 quirements under subsection (b).

12 (b) MINIMUM LEVEL OF RETAINED LOSSES.—

13 (1) IN GENERAL.—Subject to paragraphs (2)  
14 and (3) and notwithstanding any other provision of  
15 this Act, the level of retained losses specified in this  
16 section for a region established under section 6(a)(2)  
17 shall be not less than the greater of—

18 (A) an amount between \$2,000,000,000  
19 and \$5,000,000,000, that is determined by the  
20 Secretary in accordance with the requirement  
21 under section 3(c)(1); and

22 (B) an amount, determined by the Sec-  
23 retary in consultation with the Commission,  
24 that is in the range between the amount equal  
25 to the eligible loss projected to be incurred once  
26 every 100 years from a single event in the re-



1           gion and the amount equal to the eligible loss  
2           projected to be incurred once every 250 years  
3           from such an event.

4           (2) INITIAL ADJUSTMENT BASED ON PRIVATE  
5           MARKET.—The Secretary may, before making con-  
6           tracts for reinsurance coverage under this Act ini-  
7           tially available, raise the minimum level of retained  
8           losses from the amount required under paragraph  
9           (1) for a region to ensure, as determined by the Sec-  
10          retary, that such contracts comply with the principle  
11          under section 3(c)(1).

12          (3) ANNUAL ADJUSTMENT.—The Secretary  
13          may annually raise the minimum level of retained  
14          losses established under paragraph (1) for a region  
15          to reflect, as determined by the Secretary—

16                (A) changes in the capacity of the private  
17                insurance and reinsurance market;

18                (B) increases in the market value of prop-  
19                erties; or

20                (C) such other situations as the Secretary  
21                considers appropriate.

22          The Secretary shall consider the minimum level of  
23          retained losses requirement in paragraph (1) as a  
24          minimum requirement only and shall have full au-  
25          thority, effective on the date of the enactment of this

1 Act, to establish levels of required minimum retained  
2 losses in any amount greater than the amounts spec-  
3 ified in such paragraph. In making any determina-  
4 tion under this paragraph in the minimum level of  
5 retained losses, the Secretary shall establish such  
6 level at an amount such that the program under this  
7 Act for making reinsurance coverage available does  
8 not displace or compete with the private insurance  
9 or reinsurance markets or capital markets, as deter-  
10 mined by the Secretary after the Secretary has pro-  
11 vided interested parties an opportunity to submit to  
12 the Commission market information relevant to such  
13 determination and has provided the Commission  
14 with an opportunity to advise the Secretary regard-  
15 ing such information and determination.

16 (4) OPTIONAL ANNUAL INFLATIONARY OR EX-  
17 POSURE ADJUSTMENT.—The Secretary may, on an  
18 annual basis, raise the minimum level of retained  
19 losses established under paragraph (1) for each re-  
20 gion to reflect the annual rate of inflation or growth  
21 in exposures, whichever is greater. Any such raise  
22 shall be made in accordance with an inflation index  
23 or exposure index, as appropriate, that the Secretary  
24 determines to be appropriate. The first such raise  
25 may be made one year after contracts for reinsur-

1       ance coverage under this Act are first made avail-  
2       able for purchase.

3       (c) MAXIMUM FEDERAL LIABILITY.—

4           (1) IN GENERAL.—Notwithstanding any other  
5       provision of law, the Secretary may sell only con-  
6       tracts for reinsurance coverage under this Act in  
7       various amounts which comply with the following re-  
8       quirements:

9           (A) AGGREGATE LIABILITY.—The probable  
10       maximum loss, as defined by the Secretary, for  
11       payment of claims under all such contracts in  
12       any single year shall not exceed  
13       \$25,000,000,000 (as such amount is adjusted  
14       under paragraph (2)).

15          (B) ELIGIBLE LOSS COVERAGE OFFERED  
16       FOR SALE.—Except as provided in subpara-  
17       graph (C), eligible losses covered by all con-  
18       tracts offered for sale within a region during a  
19       12-month period shall not exceed the difference  
20       between the following amounts (each of which  
21       shall be determined by the Secretary in con-  
22       sultation with the Commission):

23           (i) The amount equal to the eligible  
24       loss projected to be incurred once every

1                   500 years from a single event in the re-  
2                   gion.

3                   (ii) The amount equal to the eligible  
4                   loss projected to be incurred once every  
5                   100 years from a single event in the re-  
6                   gion.

7                   (C) CONTRACT AUTHORITY TRANSFER-  
8                   ABILITY.—In the case of a region for which the  
9                   limitation under subparagraph (B) on authority  
10                  to offer contracts for sale for a 12-month period  
11                  has not been reached, the Secretary may, under  
12                  a procedure and terms as the Secretary shall  
13                  establish, transfer such authority to other re-  
14                  gions for which the limitations on contract au-  
15                  thority under subparagraph (B) have been  
16                  reached for such period, but only if there  
17                  exist—

18                  (i) at least one region in which the  
19                  coverage under the contracts offered for  
20                  sale during such period exceeds the cov-  
21                  erage under the contracts sold; and

22                  (ii) at least one region in which all  
23                  coverage under the contracts offered for  
24                  sale during such period has been pur-  
25                  chased.

1           (2) ANNUAL ADJUSTMENTS.—The Secretary  
2       shall annually adjust the amount under paragraph  
3       (1)(A) (as it may have been previously adjusted) to  
4       provide for inflation in accordance with an inflation  
5       index that the Secretary determines to be appro-  
6       priate.

7       (d) LIMITATION ON PERCENTAGE OF RISK IN EX-  
8       CESS OF RETAINED LOSSES.—

9           (1) IN GENERAL.—The Secretary may not  
10      make available for purchase through an auction for  
11      a region contracts for reinsurance coverage under  
12      this Act that would pay out more than 50 percent  
13      of eligible losses for such region.

14          (2) PAYOUT.—For purposes of this subsection,  
15      the amount of payout from a reinsurance contract  
16      shall be the amount of eligible losses in excess of re-  
17      tained losses multiplied by the percentage under  
18      paragraph (1).

19   **SEC. 9. DISASTER REINSURANCE FUND.**

20          (a) ESTABLISHMENT.—There is established within  
21      the Treasury of the United States a fund to be known  
22      as the Disaster Reinsurance Fund (in this section referred  
23      to as the “Fund”).

24          (b) CREDITS.—The Fund shall be credited with—

1           (1) amounts received annually from the sale of  
2       contracts for reinsurance coverage under this Act;

3           (2) any amounts borrowed under subsection  
4       (d);

5           (3) any amounts earned on investments of the  
6       Fund pursuant to subsection (e); and

7           (4) any appropriations for the Fund and such  
8       other amounts as may be credited to the Fund.

9       (c) USES.—Amounts in the Fund shall be available  
10   to the Secretary only for the following purposes:

11           (1) CONTRACT PAYMENTS.—For payments to  
12       covered purchasers under contracts for reinsurance  
13       coverage for eligible losses under such contracts.

14           (2) COMMISSION COSTS.—To pay for the oper-  
15       ating costs of the Commission.

16           (3) ADMINISTRATIVE EXPENSES.—To pay for  
17       the administrative expenses incurred by the Sec-  
18       retary in carrying out the reinsurance program  
19       under this Act.

20           (4) TERMINATION.—Upon termination under  
21       section 13, as provided in such section.

22       (d) BORROWING.—

23           (1) AUTHORITY.—To the extent that the  
24       amounts in the Fund are insufficient to pay claims  
25       and expenses under subsection (c), the Secretary

1       may issue such obligations of the Fund as may be  
2       necessary to cover the insufficiency and shall pur-  
3       chase any such obligations issued.

4           (2) PUBLIC DEBT TRANSACTION.—For the pur-  
5       pose of purchasing any such obligations, the Sec-  
6       retary may use as a public debt transaction the pro-  
7       ceeds from the sale of any securities issued under  
8       chapter 31 of title 31, United States Code, and the  
9       purposes for which securities are issued under such  
10      chapter are hereby extended to include any purchase  
11      by the Secretary of such obligations under this sub-  
12      section.

13          (3) CHARACTERISTICS OF OBLIGATIONS.—Obli-  
14      gations issued under this subsection shall be in such  
15      forms and denominations, bear such maturities, bear  
16      interest at such rate, and be subject to such other  
17      terms and conditions, as the Secretary shall deter-  
18      mine.

19          (4) TREATMENT.—All redemptions, purchases,  
20      and sales by the Secretary of obligations under this  
21      subsection shall be treated as public debt trans-  
22      actions of the United States.

23          (5) REPAYMENT.—Any obligations issued under  
24      this subsection shall be repaid, including interest,  
25      from the Fund and shall be recouped from pre-

1       miums charged for reinsurance coverage provided  
2       under this Act or other sources, or a combination  
3       thereof.

4       (e) INVESTMENT.—If the Secretary determines that  
5       the amounts in the Fund are in excess of current needs,  
6       the Secretary may invest such amounts as the Secretary  
7       considers advisable in obligations issued or guaranteed by  
8       the United States.

9       (f) PROHIBITION OF FEDERAL FUNDS.—Except for  
10      amounts made available pursuant to subsection (d) and  
11      section 10(h), no Federal funds shall be authorized or ap-  
12      propriated for the Fund or for carrying out the reinsur-  
13      ance program under this Act.

14      **SEC. 10. NATIONAL COMMISSION ON CATASTROPHE RISKS**  
15                                      **AND INSURANCE LOSS COSTS.**

16      (a) ESTABLISHMENT.—The Secretary shall establish  
17      a commission to be known as the National Commission  
18      on Catastrophe Risks and Insurance Loss Costs.

19      (b) DUTIES.—The Commission shall meet for the sole  
20      purpose of advising the Secretary regarding the estimated  
21      loss costs associated with the contracts for reinsurance  
22      coverage available under this Act and carrying out the  
23      functions specified in this Act.

24      (c) MEMBERS.—The Commission shall consist of not  
25      more than 5 members, who shall be appointed by the Sec-



1 retary and shall be broadly representative of the public  
2 interest. Members shall have no personal, professional, or  
3 financial interest at stake in the deliberations of the Com-  
4 mission. The membership of the Commission shall at all  
5 times include at least 1 representative of a nationally rec-  
6 ognized consumer organization.

7 (d) TREATMENT OF NON-FEDERAL MEMBERS.—  
8 Each member of the Commission who is not otherwise em-  
9 ployed by the Federal Government shall be considered a  
10 special Government employee for purposes of sections 202  
11 and 208 of title 18, United States Code.

12 (e) EXPERTS AND CONSULTANTS.—The Commission  
13 may procure temporary and intermittent services under  
14 section 3109(b) of title 5, United States Code, but at a  
15 rate not in excess of the daily equivalent of the annual  
16 rate of basic pay payable for level V of the Executive  
17 Schedule, for each day during which the individual pro-  
18 cured is performing such services for the Commission.

19 (f) COMPENSATION.—Each member of the Commis-  
20 sion who is not an officer or employee of the Federal Gov-  
21 ernment shall be compensated at a rate of basic pay pay-  
22 able for level V of the Executive Schedule, for each day  
23 (including travel time) during which such member is en-  
24 gaged in the performance of the duties of the Commission.  
25 All members of the Commission who are officers or em-

1 ployees of the United States shall serve without compensa-  
2 tion in addition to that received for their services as offi-  
3 cers or employees of the United States.

4 (g) OBTAINING DATA.—The Commission and the  
5 Secretary may solicit loss exposure data and such other  
6 information either deems necessary to carry out its re-  
7 sponsibilities from governmental agencies and bodies and  
8 organizations that act as statistical agents for the insur-  
9 ance industry. The Commission and the Secretary shall  
10 take such actions as are necessary to ensure that informa-  
11 tion that either deems is confidential or proprietary is dis-  
12 closed only to authorized individuals working for the Com-  
13 mission or the Secretary. No company which refuses to  
14 provide information requested by the Commission or the  
15 Secretary may participate in the program for reinsurance  
16 coverage authorized under this Act, nor may any State  
17 insurance or reinsurance program participate if any gov-  
18 ernmental agency within that State has refused to provide  
19 information requested by the Commission or the Sec-  
20 retary.

21 (h) FUNDING.—

22 (1) AUTHORIZATION OF APPROPRIATIONS.—  
23 There are authorized to be appropriated to the Dis-  
24 aster Reinsurance Fund established under section  
25 9—

1 (A) \$1,000,000 for fiscal year 2001 for the  
2 initial expenses in establishing the Commission  
3 and the initial activities of the Commission that  
4 cannot timely be covered by amounts obtained  
5 pursuant to section 6(a)(3)(C), as determined  
6 by the Secretary;

7 (B) such additional sums as may be nec-  
8 essary to carry out subsequent activities of the  
9 Commission;

10 (C) \$1,000,000 for fiscal year 2001 for the  
11 initial expenses of the Secretary in carrying out  
12 the program authorized under section 3; and

13 (D) such additional sums as may be nec-  
14 essary to carry out subsequent activities of the  
15 Secretary under this Act.

16 (2) OFFSET.—The Secretary shall provide, to  
17 the maximum extent practicable, that an amount  
18 equal to any amount appropriated under paragraph  
19 (1) is obtained from purchasers of reinsurance cov-  
20 erage under this Act and deposited in the Disaster  
21 Reinsurance Fund. Such amounts shall be obtained  
22 by inclusion of a provision for the Secretary's and  
23 the Commission's expenses incorporated into the  
24 pricing of the contracts for such reinsurance cov-  
25 erage, pursuant to section 6(a)(3)(C).

1 (i) TERMINATION.—The Commission shall terminate  
2 upon the effective date of the repeal under section 13(c).

3 **SEC. 11. DEFINITIONS.**

4 For purposes of this Act, the following definitions  
5 shall apply:

6 (1) COMMISSION.—The term “Commission”  
7 means the National Commission on Catastrophe  
8 Risks and Insurance Loss Costs established under  
9 section 10.

10 (2) COVERED PERILS.—The term “covered per-  
11 ils” means the natural disaster perils under section  
12 5.

13 (3) COVERED PURCHASER.—The term “covered  
14 purchaser” means the purchaser of the contract for  
15 reinsurance coverage under this Act or any subse-  
16 quent holder or holders of the contract.

17 (4) DISASTER AREA.—The term “disaster area”  
18 means a geographical area, with respect to which—

19 (A) a covered peril specified in section 5  
20 has occurred; and

21 (B) a declaration that a major disaster ex-  
22 ists, as a result of the occurrence of such  
23 peril—

24 (i) has been made by the President of  
25 the United States; and

1 (ii) is in effect.

2 (5) ELIGIBLE LOSSES.—The term “eligible  
3 losses” means losses in excess of the sustained and  
4 retained losses, as defined by the Secretary after  
5 consultation with the Commission.

6 (6) PRICE GOUGING.—The term “price  
7 gouging” means the providing of any consumer good  
8 or service by a supplier for a price that the supplier  
9 knows or has reason to know is greater, by at least  
10 the percentage set forth in a State law or regulation  
11 prohibiting such act (notwithstanding any real cost  
12 increase due to any attendant business risk and  
13 other reasonable expenses that result from the major  
14 disaster involved), than the price charged by the  
15 supplier for such consumer good or service imme-  
16 diately before the disaster.

17 (7) QUALIFIED LINES.—The term “qualified  
18 lines” means lines of insurance coverage for which  
19 losses are covered under section 4 by reinsurance  
20 coverage under this Act.

21 (8) SECRETARY.—The term “Secretary” means  
22 the Secretary of the Treasury.

23 (9) STATE.—The term “State” means the  
24 States of the United States, the District of Colum-  
25 bia, the Commonwealth of Puerto Rico, the Com-

1       monwealth of the Northern Mariana Islands, Guam,  
2       the Virgin Islands, American Samoa, and any other  
3       territory or possession of the United States.

4   **SEC. 12. REGULATIONS.**

5       The Secretary shall issue any regulations necessary  
6   to carry out the program for reinsurance coverage under  
7   this Act.

8   **SEC. 13. TERMINATION.**

9       (a) IN GENERAL.—Except as provided in subsection  
10   (b), the Secretary may not provide any reinsurance cov-  
11   erage under this Act covering any period after the expira-  
12   tion of the 10-year period beginning on the date of the  
13   enactment of this Act.

14       (b) EXTENSION.—If upon the expiration of the period  
15   under subsection (a) the Secretary, in consultation with  
16   the Commission, determines that continuation of the pro-  
17   gram for reinsurance coverage under this Act is necessary  
18   to carry out the purpose of this Act under section 3(b)  
19   because of insufficient growth of capacity in the private  
20   homeowners' insurance market, the Secretary shall con-  
21   tinue to provide reinsurance coverage under this Act until  
22   the expiration of the 5-year period beginning upon the ex-  
23   piration of the period under subsection (a).

24       (c) REPEAL.—Effective upon the date that reinsur-  
25   ance coverage under this Act is no longer available or in

1 force pursuant to subsection (a) or (b), this Act (except  
2 for this section) is repealed.

3 (d) WINDUP.—Before the date referred to in sub-  
4 section (c), the Secretary shall take any actions necessary  
5 to make any payments that may be due from the Fund  
6 under section 9 for claims, administrative expenses, and  
7 operating costs of the Commission.

8 (e) DEFICIT REDUCTION.—The Secretary shall cover  
9 into the General Fund of the Treasury any amounts re-  
10 maining in the Fund under section 9 upon the repeal of  
11 this Act.

12 **SEC. 14. ANNUAL STUDY OF COST AND AVAILABILITY OF**  
13 **DISASTER INSURANCE AND PROGRAM NEED.**

14 (a) IN GENERAL.—The Secretary shall, on an annual  
15 basis, conduct a study and submit to the Congress a report  
16 on the cost and availability of homeowners' insurance for  
17 losses resulting from catastrophic natural disasters cov-  
18 ered by the reinsurance program under this Act.

19 (b) CONTENTS.—Each annual study under this sec-  
20 tion shall determine and identify, on an aggregate basis—

21 (1) for each region, the capacity of the private  
22 homeowners' insurance market with respect to cov-  
23 erage for losses from catastrophic natural disasters;

1           (2) for each region, the percentage of home-  
2           owners who have such coverage, the disasters cov-  
3           ered, and the average cost of such coverage;

4           (3) for each region, the progress that private  
5           reinsurers and capital markets have made in pro-  
6           viding reinsurance for such homeowners' insurance;

7           (4) for each region, the effects of the Federal  
8           reinsurance program under this Act on the avail-  
9           ability and affordability of such insurance; and

10          (5) the appropriate time for termination of the  
11          Federal reinsurance program under this Act.

12          (c) TIMING.—Each annual report under this section  
13          shall be submitted not later than March 30 of the year  
14          after the year for which the study was conducted.

15          (d) COMMENCEMENT OF REPORTING REQUIRE-  
16          MENT.—The Secretary shall first submit an annual report  
17          under this section 2 years after the date of the enactment  
18          of this Act.

19          **SEC. 15. GAO STUDY OF HURRICANE RELATED FLOODING.**

20          (a) IN GENERAL.—The Comptroller General of the  
21          United States shall conduct a study of the availability and  
22          adequacy of flood insurance coverage for losses to resi-  
23          dences and other properties caused by hurricane-related  
24          flooding.



1 (b) CONTENTS.—The study under this section shall  
2 determine and analyze—

3 (1) the frequency and severity of hurricane-re-  
4 lated flooding during the last 20 years in comparison  
5 with flooding that is not hurricane-related;

6 (2) the differences between the risks of flood-re-  
7 lated losses to properties located within the 100-year  
8 floodplain and those located outside of such flood-  
9 plain;

10 (3) the extent to which insurance coverage re-  
11 ferred to in subsection (a) is available for properties  
12 not located within the 100-year floodplain;

13 (4) the advantages and disadvantages of mak-  
14 ing such coverage for such properties available under  
15 the national flood insurance program;

16 (5) appropriate methods for establishing pre-  
17 miums for insurance coverage under such program  
18 for such properties that, based on accepted actuarial  
19 and rate making principles, cover the full costs of  
20 providing such coverage;

21 (6) appropriate eligibility criteria for making  
22 flood insurance coverage under such program avail-  
23 able for properties that are not located within the  
24 100-year floodplain or within a community partici-  
25 pating in the national flood insurance program;

1           (7) the appropriateness of the existing  
2 deductibles for all properties eligible for insurance  
3 coverage under the national flood insurance pro-  
4 gram, including the standard and variable  
5 deductibles for pre-FIRM and post-FIRM prop-  
6 erties, and whether a broader range of deductibles  
7 should be established;

8           (8) income levels of policyholders of insurance  
9 made available under the national flood insurance  
10 program whose properties are pre-FIRM subsidized  
11 properties; and

12           (9) the number of homes that are not primary  
13 residences that are insured under the national flood  
14 insurance program and are pre-FIRM subsidized  
15 properties.

16       (c) CONSULTATION WITH FEMA.—In conducting  
17 the study under this section, the Comptroller General shall  
18 consult with the Director of the Federal Emergency Man-  
19 agement Agency.

20       (d) REPORT.—The Comptroller General shall com-  
21 plete the study under this section and submit a report to  
22 the Congress regarding the findings of the study, not later  
23 than 5 months after the date of the enactment of this Act.